

General Information Letter: Exempt organizations are taxed by Illinois only on unrelated business taxable income.

January 19, 1999

Dear:

This is in response to your letter dated January 11, 1999, in which you request a letter ruling. The nature of your letter and the information you have provided require that we respond with a General Information Letter which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 86 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter you have stated the following:

We spoke on the telephone this morning. Enclosed is a copy of the XXXXXX XXXXXXXX XXXX'X IRS 501(c)(3) letter showing our tax-exempt status. Please send the XXXX a letter stating that the State of IL recognizes the federal ruling or whatever words you find appropriate to that effect. I need some documentation from you that the XXXX is exempt from income taxes in the State of Illinois.

**Response**

The Illinois Income Tax is imposed on a taxpayer's "net income," which is the amount of a taxpayer's "base income" that is allocated or apportioned to Illinois. See Sections 201 and 202 of the Illinois Income Tax Act (the "IITA"; 35 ILCS 5/101 et seq.). Section 205(a) of the IITA provides that:

The base income of an organization which is exempt from the federal income tax by reason of Section 501(a) of the Internal Revenue Code shall not be determined under section 203 of this Act, but shall be its unrelated business taxable income as determined under section 512 of the Internal Revenue Code, without any deduction for the tax imposed by this Act.

Accordingly, a federally exempt organization that has no unrelated business taxable income has no base income to be allocated or apportioned to Illinois, and therefore has no Illinois Income Tax liability.

As stated above, this is a general information letter which does not constitute a statement of policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department. If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Sincerely,

Paul S. Caselton  
Associate Chief Counsel -- Income Tax